EXCHANGE-RELATIONS, ECONOMIC HISTORY AND PHILIPPINE INSTITUTIONS

Emmanuel S. de Dios, Ph.D.
Professor
School of Economics
University of the Philippines Diliman
1101, Quezon City

Abstract

Institutions have come to be recognised among the "deep determinants" of economic development. Institutions are defined *[7]* as "social factors – rules, beliefs, norms, and organizations – that guide, enable, and constrain the actions of individuals, thereby generating regularities of behavior." Institutions surrounding and affecting exchange are particularly important in economic development in light of the principle that in giving rise to specialisation, exchange promotes productivity growth. Both in history and in principle, an expanding scope of exchange creates a demand for impersonal rules that go beyond immediate personal relationships to include more comprehensive common responsibility systems, and on to third-party enforcement mechanisms including the state.

This paper contributes to the hypothesis that a good deal of past Philippine under-development was due to the restriction of trade, and, more importantly, that such a restriction bore consequences for the subsequent development of Philippine institutions. The Spanish conquest suppressed the pre-existing free trade that existed between native communities and China and the South, replacing this instead by the mercantilist institutions, notably the galleon trade. For a great part of the Spanish occupation, domestic trade itself was also discouraged through arbitrary impositions, confiscation of goods by the colonial authorities, as well as the mis-guided formal restriction of credit transactions. The effect was not merely to severely limit wealth-generation among the native population of the time, but more importantly to prevent the emergence of institutions that would facilitate impersonal exchange separated in time and covering long distances. In particular, an experience of effective and impartial law failed to develop. What law there was, as embodied, e.g., in royal ordinances, failed